

**Senate Budget and Fiscal Review Subcommittee #4 on
Legislative, Executive, Judiciary, Transportation, and
General Government**

**Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny**

**Wednesday, April 2, 2003
1:30 p.m.
Room 3191**

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8260 Arts Council

The California Arts Council budget was funded at \$49.7 million (\$47.9 million GF) in 2001-02 and \$21.5 million (\$19.6 million GF) in the current year. Most of this reduction (\$20 million) was attributable to the elimination of funding provided for district-specific projects. In addition, local grants were reduced by \$9 million. The budget proposes expenditures of \$13.6 million (\$12.0 million GF) in the budget year.

Issues

Arts in Education Program. Under the program, the state assists artists and arts organizations to enhance the capacity of California schools to teach the arts and to use the arts to teach other subject matters. The budget provided \$6.8 million (GF) in grants for this program in 2001-02 and \$6.2 million (\$5.7 million GF) in the current year. The budget proposes to reduce this amount by \$3.0 million (47 percent) to \$3.3 million (\$3 million GF) in the budget year.

Does the subcommittee want to approve the proposed reduction?

Organization Support Grants. This program provides matching grants that leverage local private and public dollars for over 800 arts organizations throughout the state. Grants for this program were funded at \$9.7 million (GF) in 2001-02. The current year funding is \$5.8 million reflecting a \$2 million unallocated reduction. The budget proposes to reduce funding by \$2.8 million (47 percent) for grant funding of \$3.0 million in 2003-04.

The December Revision proposed to reduce the Multicultural Arts Program by \$102,000 in the current and budget year. SB 15X (the first budget correction bill passed by the Senate) did not include the \$102,000 current year reduction. Chapter 3, Statutes of 2003-04 First Extraordinary Session (SB 19X, Chesbro) included the \$102,000 current year reduction.

Does the subcommittee want to approve the proposed reduction of \$2.8 million including the \$102,000 reduction to Multicultural Arts Program?

Artists in Residence Program. The Artists in Residence Program uses art professions to work with K-12 public school students and other Californians in mental health, drug prevention, youth at risk, day care, latchkey, and other community programs to promote critical thinking self esteem, and to provide positive role models. The program was funded at \$4.8 million (\$3.7 million GF) in 200-01 and \$2.6 million (\$1.9 million GF) in the current year. The budget proposes expenditures of \$1.7 million (\$1.1 million GF). The \$600,000 reduction is all local assistance.

Does the subcommittee want to approve the proposed reduction?

Simon Wiesenthal Museum (Tools for Tolerance). This grant program was funded at \$2 million (GF) in 2001-02. The December Revision proposed to reduce this program by \$100,000. SB 15X (the first budget correction bill passed by the Senate) did not include the \$100,000 current year reduction. Chapter 3, Statutes of 2003-04 First Extraordinary Session (SB 19X, Chesbro) included the \$100,000 current year reduction.

The budget proposes to reduce the 2003-04 funding by \$200,000 to \$1.8 million (10% reduction).

Does the subcommittee want to approve the proposed reduction?

2920 Technology, Trade and Commerce Agency

Managing the state's economic development efforts is the primary responsibility of the (TTCA). Its major programs are Economic Development, International Trade and Investment, Marketing and Communications and Tourism. The department also provides low-cost financing to public agencies for a variety of infrastructure and public improvements through the California Infrastructure and Economic Development Bank.

The TTCA budget for 2001-02 was \$216.1 million (\$68.9 million GF). The current year budget, adjusted for the December Revision, is budgeted at \$156.4 million.

Technology, Trade, and Commerce Agency Expenditures			
All Funds Including Federal Funds			
(In Thousands)			
Program	2001-02	2002-03	2003-04
Infrastructure Bank	\$81,311	\$77,680	\$76,182
Science, Technology, and Innovation Programs	1,923	763	131
Film Commission and Film California First	12,920	10,972	11,212
Biomass-to-Energy grant program	11,500	-	-
Tourism	8,257	8,141	--
Manufacturing Technology Program	6,039	2,739	-
California Technology Investment Partnership and Regional Technology Alliances	6,000	3,000	—
Foreign Trade Offices	5,584	3,873	3,841
Small Business Loan Guarantee Program	2,662	4,662	4,662
Regional Offices	2,622	-	-
Internet Network Grants	2,000	-	-
Rural E-commerce grants	2,000	-	-
Office of Military Base Reuse and Retention	1,926	923	-
Economic Research	1,217	883	188
Contract, Grants and Loans Office	1,437	1,400	364
Marketing and Communications	804	453	-
Commission of the Californias	324	278	280
Office of California-Mexico Affairs	250	241	242
Other	35,348	40,404	11,966
Totals	\$184,124	\$ 156,412	\$ 109,068

Current-Year Reductions. The current-year budget included elimination of the agency's regional offices as well as grants for local defense adjustment, development of small business software applications, and rural E-commerce programs. In addition, the 2002-03 budget reduced spending for the foreign trade offices, consulting services for small manufacturers, military base reuse, and small business grants for product development and generating electricity from biomass. This resulted in a 15 percent decline in total expenditures (37 percent for General Fund-supported activities) from 2001-02 to the current year. The 2002-03 budget included an unallocated reduction of \$2 million to the foreign trade offices and an unallocated reduction of \$10 million to the department.

Proposed Budget-Year Reductions. The administration proposes further reductions in 2003-04 from (1) substantially reducing most General Fund support and (2) eliminating consulting and technology grants for small businesses, defense retention activities, marketing and communications, economic research, and state-funded tourism promotion. This amounts to a 31 percent reduction from total current-year spending (53 percent for the General Fund).

The proposed budget maintains local assistance from special funds of \$87 million in 2003-04. Of this amount, \$73 million is for the Infrastructure Bank, which provides low-interest loans to local governments for infrastructure projects. The California Infrastructure and Economic Development Bank Fund received its initial funding from a transfer from the General Fund. The remaining special fund local assistance (which also include transfers from the General Fund and some federal funds) is for various grant and loan programs such as replacement of underground gasoline storage tanks, rural economic development, and disaster assistance.

General Fund Support

The reductions proposed by the administration leave General Fund support for the programs shown below. The budget proposes \$21.9 million for these purposes in 2003-04. This request preserves small business loan guarantees, film permit subsidies, and foreign trade offices at or near current-year levels.

2003-04 Proposed General Fund Expenditures	
(In Thousands)	
Film California First Program (transfer from General Fund)	\$8,200
Small business loan guarantee program (Transfer from General Fund)	4,662
Foreign trade offices	3,841
Film Commission	2,992
Commission of the Californias	280
Office of California-Mexico Affairs	242
Other	1,706

1. California Film Commission and Film California First Program

The California Film Commission is responsible for promoting, increasing, and retaining the production of motion pictures, television programs, and commercials within the state. The Commission is funded at \$2.9 million in both the current and budget year.

The Film California First Program subsidizes fees that movie and television production companies pay to local governments for on-site filming in California. Reimbursements are capped at \$300,000 per project and cover costs such as public safety expenses and public property use fees. In the first year of the program (2000-01), the budget provided \$15 million in grants. Of this amount, \$7 million was allocated in 2000-01 and \$8 million was allocated in 2001-02. In 2001-02, an additional \$2 million was provided for a total of \$10 million. The budget provided \$7.9 million in the current year. The budget proposes \$8.2 million (GF) for 2003-04.

According to the California Film Commission, the entertainment industry employs more than 250,000 Californians. The industry generated more than \$33.4 billion for the economy in 2000. The Commission argues that the program pays for by retaining or attracting film productions to the state and providing valuable tax dollars and income to other small businesses. According to the Commission, filming on state property increased by more than 32% percent from 2001 to 2002.

The LAO analyzed 2001 program data on reimbursements and total reported filming costs. The LAO found that reimbursements covered about 0.2 percent of total production costs. For feature films, reimbursements covered 2.7 percent of total production costs for productions costing less than \$100,000 and 0.1 percent of production costs for \$50 million-plus blockbusters. The LAO states that reimbursing this small share of production costs would unlikely have a significant impact on retaining film productions in California. Other cost differences, such as labor costs, would likely have greater impacts on film location decisions.

The LAO recommends elimination of the film permit subsidy program for savings of \$8.2 million (GF).

The LAO recommends elimination of three related positions in the Film Commission for savings of \$300,000 (GF).

The LAO also recommends transferring approximately \$2 million of the current year funds for the film permit subsidy program to the General Fund. TTCA asserts that they have allocated the entire appropriation.

Have all the current year funds been encumbered?

2. Foreign Trade Offices

The budget proposes continued operation of all trade offices. The state operates trade offices in 12 locations around the world. Seven foreign trade offices are staffed by state employees, while five other offices are staffed by contracted consultants. Total funding was \$ 6 million in 2001-02, \$3.9 million in 2002-03 and \$3.8 million in the budget year. There was an unallocated reduction of \$2 million in the current year budget.

The LAO states that these offices have not demonstrated a clear impact on state exports or foreign investment in California. The LAO states that in past assessments, the agency has included the entire value of export and foreign investment agreements in which they played even a minor role. In some cases, the office may have merely provided a list of foreign companies potentially interested in a product developed by a California business. The agency counted the total value of a subsequent export agreement as attributable to the assistance of the trade office. The federal government and local trade organizations frequently provide opportunities and assistance.

Contract Foreign Trade Offices. The budget proposed the closure of the five contract offices effective January 1, 2003 as part of the mid-year spending reductions and then reversed this position. SB 19X, however, eliminated \$195,000 for contract foreign trade offices in the current year. This was the maximum amount that could be saved at the time of enactment. .

The budget proposed eliminating the contract foreign trade offices and DOF submitted a Finance Letter on January 10 requesting \$480,000 for funding in 2003-04.

The following table displays current-year and proposed budget-year funding for these offices.

Contract Foreign Trade Offices (In thousands)			
Argentina	\$265	\$ 19	\$ 25
Shanghai	270	85	140
Singapore	200	56	100
South Korea	261	87	150
Israel	200	38	65
Totals	\$ 1,196	\$ 285	\$480

The LAO recommends eliminating all funding for the contract foreign trade offices.

Does the Subcommittee want to adopt the Finance Letter and reinstate funding for the five contract foreign trade offices?

Foreign Trade Offices. Seven foreign trade offices are staffed by state employees. The table below shows funding by trade office from 2001-02 through 2003-04. The following table shows the cost of each office

Foreign Trade Offices (In Thousands)			
	2001-02	2002-03	2003-04
Mexico	\$1,150	\$ 727	\$696
Hong Kong	829	587	538
Japan	1,009	684	636
United Kingdom	571	522	488
Germany	546	476	449
Taiwan	355	331	308
South Africa	355	261	246
Total	\$ 4,815	\$ 3,588	\$3,361

The LAO recommends that the Legislature eliminate the seven state-staffed foreign trade offices for savings of up to \$3.4 million (GF).

Does the Subcommittee want to approve the proposed funding for the foreign trade offices?

3. California Technology Improvement Program (CalTIP)

The CalTIP grant program was designed to create new jobs for defense workers affected by cutbacks in the early 1990s and help secure federal research and development grants by providing state matching funds. CalTIP provides matching funds for federal grant money to small- and medium-sized businesses to assist in the development of marketable technologies. Grants are used to match federal funds, although matching funds can come from other sources including private funds.

From 1997-98 through 2001-02, \$ 26 million (GF) has supported 145 CalTIP projects. The typical CalTIP award is about \$200,000. Businesses awarded state funding have also received \$108 million in federal grants and \$100 million from private sources (including the businesses themselves) to support their projects. This equals \$233 million in total project funding. The state has provided 11 percent of funds, compared to 46 percent from the federal government and 43 percent from private funds.

Federal and private matches do not seem to correlate strongly with the level of state grants over the years. The year with the highest level of federal and private grants was 1994-95. In that year, the state provided \$ 4.8 million, the federal government provided \$53.4 million and private funds were \$ 45.5 million for a total of \$ 69.5 million. The lowest year was 1999-2000; the state provided \$4.6 million, the federal government provided \$21.9 million and private grants were \$17.3 million for a total of \$43.8 million. Businesses must secure federal funding to be eligible to receive a CalTIP grant.

According to a survey conducted by a former program manager of CalTIP, a majority of businesses indicated that their CalTIP grants were critical for project development. According to LAO's review of the study, a majority of businesses indicated that the CalTIP grants were not critical to get federal or private funding. Thus, some portion of these jobs would have been created without state funds. The LAO's review of the study estimates that although the state receives some increased revenues from new product development and sales as a result of CalTIP grants, it is likely well under \$1 million.

The current year budget provided \$1 million for CalTIP grants. The proposed budget eliminates funding for this program.

The LAO recommends the Legislature approve the proposed elimination of funding for CalTIP grants and enactment of legislation to eliminate the grant program

Does the Subcommittee wish to approve the elimination of funding for CalTIP grants?

Does the Subcommittee wish to adopt trailer bill language to eliminate the grant program?

4. Regional Technology Alliances. The state created nonprofit regional technology alliances (RTAs) to administer the CalTIP grants and to support technology development and commercialization. Current law requires RTAs to raise funds from many sources, assist in the formation of new businesses, provide industry-networking forums, and identify emerging industries. There are currently six RTAs serving San Diego, Los Angeles, the Bay Area, the Inland Empire, the San Joaquin Valley, and the Sacramento region.

From 1997-98 through 2001-02, RTAs received \$7 million in state support and \$16 million from private sponsors. The state has provided 32 percent of RTA funding on average, while private sources have provided the remaining 68 percent.

According to the LAO, it is not clear that state involvement significantly adds to the business opportunities afforded by the private marketplace.

The current-year budget provides \$2 million to support activities of the six RTAs. The proposed budget eliminates funding for the RTAs.

The LAO recommends the Legislature approve the proposed deletion of funding for the regional technology alliances (RTAs). They also recommend enactment of legislation to eliminate the RTAs as state-created entities because the job and tax revenue impact of the program does not justify its state costs.

The RTAs could continue to exist with the financial assistance of the private companies that currently support them, to the extent businesses find their services of value.

Does the Subcommittee wish to approve the elimination of funding for RTAs?

Does the Subcommittee wish to adopt trailer bill language to eliminate RTAs as state-created entities?

5. Military Base Reuse and Retention Program. The budget proposes to eliminate funding for this program. This program was funded at \$1.9 million in 2001-02 and \$0.9 million in the current year (\$190,000 General Fund and \$720,000 Federal Grant). Funding for this program was reduced in the current year because the next round of base closures has been delayed to 2005. The budget proposes to eliminate funding for this program in the budget year.

Does the subcommittee wish to approve the elimination of funding for this program?

6. Manufacturing Technology Program (MTP). The mission of MTP is to improve the competitiveness of California small- and medium-sized manufacturers to create and retain high-wage, high-skill jobs. California's public and private sectors, along with Federal partners such as the U.S. Department of Commerce National Institute of Standards and Technology Manufacturing Extension Partnership invest in MTP to sustain the state's leadership role in manufacturing through the formation of joint state/federal/academic/private sector partnerships that provide targeted solutions for industry needs. The program requires one-third federal/two-thirds other funding requirement.

For the six years this program has been in operation the funding has totaled \$39.2 million (GF), \$69.4 million (federal funds) and \$77.3 million in local/private match. The share of funding is 21 percent (GF), 37 percent (federal funds) and 42 percent (local/private funds). The local/private match has increased from \$8.7 million in 1996-97 to \$15.5 million in 2001-02. The state contribution has stayed relatively stable increasing from \$5 million in the first year to \$6 million in 2001-02. In 2000-01, the state grant was \$7.9 million.

In 2001-02, MTP grantees were funded through grants of \$6,039,000 (GF) as a match to federal funds of \$10.5 million and local/private funds of \$15.5 million. The program was reduced to \$2.7 million in the current year.

The budget proposes to eliminate funding for this program. Eliminating state funding could reduce federal funding because of the match requirements although other nonstate funds (local and private) may be available to provide a match to federal funds.

Does the subcommittee wish to approve the elimination of funding for MTP?

7. Market Expansion

The Office of Small Business Development, Small Business Advocate and the Office of Export Development received total funding of \$15.1 million (\$4.7 million GF and \$10 million federal funds) in the current year. These programs will receive \$286,000 in special funds in the budget year.

Does the subcommittee wish to approve the proposed funding for this program?

8. Office of Tourism. The Tourism Marketing Act (1995) granted the travel industry authority to create the California Travel and Tourism Commission (CTTC). CTTC is funded by a self-assessment on the travel and tourism industry. The state contributes \$7.5 million (GF) and the industry contributes \$6.8 million to fund a competitive advertising campaign, an international and domestic marketing presence, conduct research, and provide travelers with information on California as a destination.

California is the number one travel destination in the United States. The tourism industry is California's fourth largest employer, employing more than one million Californians. The industry contends that it generates more than \$75 billion in direct spending in California and generates more than \$5 billion in state and local revenue.

The budget proposes to eliminate funding of \$7.5 million (GF) for the Agency's Tourism Division.

Does the subcommittee wish to approve the elimination of funding for this program?

10. An Agency or a Department?

Before 1992, TTCA was the Department of Commerce in the Business, Transportation, and Housing Agency. The Agency does not perform the same functions as other agencies, such as providing policy guidance or oversight of other departments. The Agency's primary function is to generate revenue for the State. The agency's proposed budget for 2003-04 is \$109 million and 104 PYs. The new Labor and Workforce Development Agency with 2,600 employees has the fewest number of employees of the state's other agencies.

The LAO recommends that the Legislature adopt trailer bill legislation that moves the agency back into the Business, Transportation, and Housing Agency as a department. This should result in some minor cost savings.

Does the subcommittee want to approve trailer bill language to convert the agency to a department?